



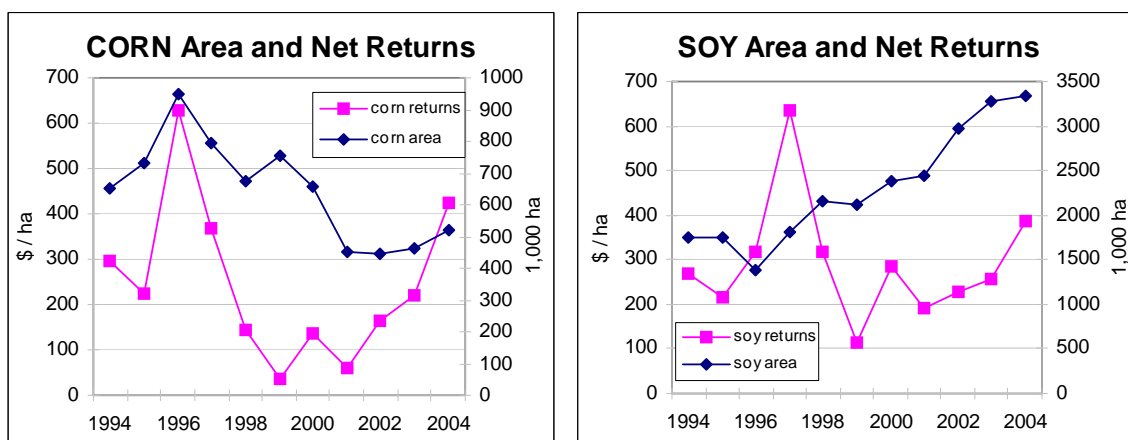
Production Estimates and Crop Assessment Division Foreign Agricultural Service

Both, Argentine Corn and Soybean Returns Expected to be Lower in 2005

The provinces of Buenos Aires and Santa Fe are major corn and soybean producers. In particular, for corn, northern Buenos Aires and southern Santa Fe are the higher yielding regions. Corn and soybean production in these regions, account for thirty percent, each, of the national output. These provinces are major contributors to the national economy because of their agriculture and industrial sectors. They account for over 50 percent of the country's population and their major agricultural activities include livestock, grains and oilseeds production and processing.

During the last ten years, corn area planted in this region, (defined as Junín, Pergamino, and Bragado in Northern Buenos Aires; and Casilda, Cañada de Gómez and Venado Tuerto in Southern Santa Fe) ranged from roughly 500,000 to 1.0 million hectares, while its production ranged from around 3.0 to 6.0 million tons with an average yield of approximately 6.6 tons per hectare. First-crop soybeans are the competing crop with corn and tend to be planted later than corn. Its area ranged roughly from 2.0 to 3.0 million hectares, producing around 3.0 to 10.0 million tons of soybeans. The average yield in the past has been 2.8 tons per hectare, less than half of what corn yields in this area. Second-crop soybeans are planted after wheat is harvested and have distinctive costs and returns that are not analyzed in this article.

Chart 1. Buenos Aires / Santa Fe - Corn and Soybean Area and Net Returns (1994 – 2004)



Farmers in these provinces will be planting corn starting in September with soybeans starting in November. They will be looking at net returns as a major indicator of which

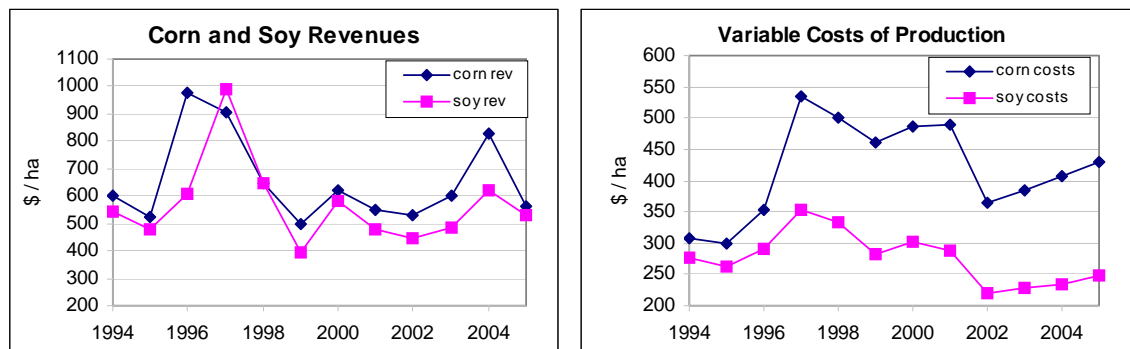
crop to plant, the major competing crops are soybeans and corn. Chart 1, compares historical soybean and corn net returns with their respective planted areas from 1994 through 2004. Returns are calculated as price of corn/soybean times yield minus variable cost of production. Variable costs are defined as costs of fertilizers, herbicides, fungicides, seeds, labor, drying, and costs of harvesting. Corn/soybean prices are the average producer prices in Buenos Aires and Rosario, during harvesting months. The data used for prices and cost of production is published data produced by Margenes Agropecuarias, an Argentine research firm.

In Chart 1, corn net returns seem to have a correlation with area planted, although the correlation might not be as strong at times. However, soybean area seems to increase regardless of returns. Farmers are encouraged to plant more or less corn depending on net returns while soybean area is not as responsive to soybean returns.

Other factors that may influence planting decisions include crop rotation, weather during planting season, international demand, etc. The effects of these factors are more difficult to quantify. It is interesting to note however, that rent of farmland has increased by 70 percent since 2001 and that 50 percent of farmland is rented. To compensate for higher rent, landowners are accepting rental agreements in which the farmer agrees to interrupt continuous soybean planting with corn in order to allow the soil to replenish its organic nutrients. This has helped increase corn area in recent years.

In Chart 2, we compare returns for both commodities and include a forecast return for 2005. Forecast returns for 2005 are based on producer prices for corn, and futures prices for soybeans, a trend yield, and continued increase in costs of production for both commodities.

Chart 2. N. Buenos Aires / S. Santa Fe – Revenues and Variable Costs of Production (1994 – 2005)

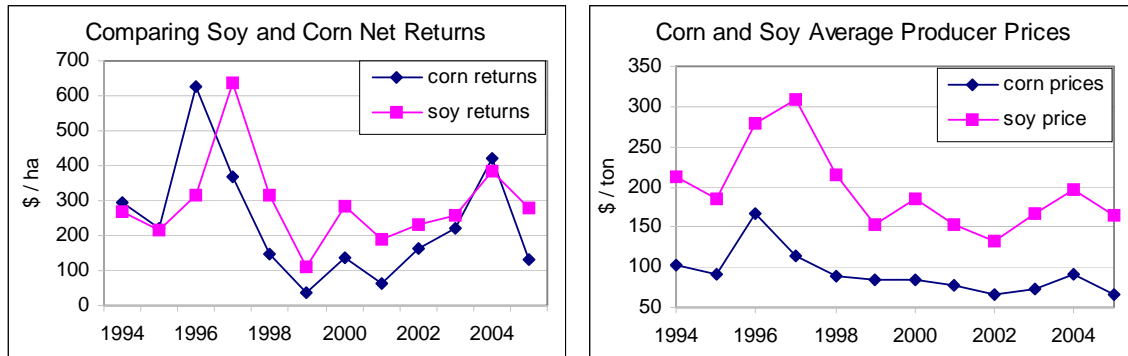


Net returns for corn and soybeans are expected to decrease in 2005 due to lower prices and higher costs of production, more so for corn than for soybeans, as corn prices are much lower than in 2004. Chart 2, shows that corn revenues tend to be greater than soybean revenues due to higher yields, since corn prices tend to be lower than that of soybeans. However, for 2005, corn revenues are as low as soybean revenues due to much lower prices. Corn and soybean yields have been increasing in this area- more so for corn than for soybeans - and both are expected to continue trending upward as technology

advances. Due to higher corn costs of production corn net returns are usually lower than soybean returns.

In Chart 3, it is interesting to note that for both commodities, soybean and corn net returns have been at similar levels a couple of times in the past ten years, in addition to the recent years since 2002. Every time that the gap between corn and soybean returns narrows or comes close to zero, corn area seems to have increased. However, for 2005, the gap has widened again and corn returns are expected much lower.

Chart 3. N. Buenos Aires / S. Santa Fe – Soy / Corn Net Returns & Prices (1994 – 2005)



Therefore, for this year, local producer prices have continued to be lower and if we assume trend yields and increasing costs of production, farmers may be encouraged to plant less corn. Crop rotation, however, seems to play an important role in controlling the costs of higher rent, which may result in no change for the area planted in corn. In the case of soybeans, one could expect that planted area for this region would increase despite expected decreasing returns. Soybean area has been increasing every year for the last nine years exhibiting no response to the movement of net soy returns.

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